Bragg Mutual Federal Credit Union
2917 Village Drive
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April 3, 2008

The Honorable Michael E. Fryzel
Chairman, National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

The Honorable Rodney E. Hood
Vice Chairman, National Credit Union Administration

The Honorable Gigi Hyland
Board Member, National Credit Union Administration

Sent via e-mail to: regcomments@ncua.gov

Bragg Mutual Federal Credit Union appreciates the opportunity to comment on the Advance Notice of Proposed Rule Making and Request for Comment. We understand the importance of effective regulation to assure the safe continuance of the corporate credit union system, especially during this time of turmoil and uncertainty.

Overview

Although the current situation with the corporate credit unions was initially brought on by the collapse of the economy, we believe there were two conditions within the corporate system that exacerbated the situation. The first condition was the high concentration of a particular type of investment. While these investments were highly rated at the time of purchase, once they began their decline, it caused significant problems due to the high concentrations and the lack of adequate diversification. The second condition was insufficient capital requirements for the corporate credit unions. If the corporate credit unions were required to maintain more capital, then they may be more able to handle riding out these difficult times more readily.

The Role of Corporates in the Credit Union System

Payment Systems and Liquidity Management - The two key services offered by corporate credit unions are payment processing and liquidity management. It is possible to procure these services outside of the corporate system, but at a greater cost and much greater inconvenience. In the recent past, we made an attempt to move some of our payment processing to the Federal

Reserve. We were not provided adequate information or assistance to do so, but we were provided with a price for the services. The price turned out to be higher than our corporate credit union's price and we ended up staying with our corporate credit union. We are a smaller natural person credit union and we appreciate and use the services of our corporate credit union which happens to be First Carolina Corporate Credit Union.

We believe a separate charter for corporate credit unions providing payment systems and for those providing liquidity management is neither necessary nor feasible. The two functions work hand-in-hand and fund each other. If the risks involved with the concentration of investments and adequate capital are corrected, then the risks for payment processing and liquidity management will in turn be mitigated.

<u>Field of Membership Issues</u> - Ideally the corporate credit unions should have defined fields of membership. Competition can be good in the capitalist market, but within the not-for-profit market it can be counterproductive. A defined field of membership would help to ensure service standards for all credit unions no matter what their size. We feel First Carolina Corporate Credit Union understands us better and provides better service to us due to the close geographical location. They know what is happening in our area that affects us.

A defined field of membership would also require less risk taking on the part of the corporate credit unions in order to lure in business from competitors. On the same hand, if the capital requirements are reformed to require all natural person credit unions to contribute core capital, then the field of membership issue will resolve itself.

<u>Expanded Investment Authority</u> – Investment authority for corporate credit unions should only facilitate the operations of efficient payment systems and liquidity management. If expanded investment authority is required for these purposes, then sufficient restrictions on concentrations and durations should definitely be in place. The corporate credit union system should not be used as a vehicle to bypass the investment and capital restrictions for natural person credit unions.

<u>Structure; two-tiered system</u> – While we do not pretend to be authorities of the wholesale corporate credit union, we have not heard a strong rallying call from the corporate credit unions to preserve their wholesale corporate. While the initial intent of having the wholesale corporate was to provide greater efficiencies through centralized resources, it appears that the system evolved into a means to take on greater risks while circumventing capital requirements. If the two-tiered system is allowed to survive, then both the corporate credit unions and the wholesale corporate need to have stronger capital requirements. Since the capitalization of the corporate credit unions is ultimately the responsibility of natural person credit unions, this may not be realistic within the current economic conditions for natural person credit unions.

We do realize that the U.S. Central will need to stay in existence while its investment portfolio pays down.

Corporate Capital

Core Capital – We have contributed capital at First Carolina Corporate Credit Union and believe that it is stronger because of it. All natural person credit unions using the services of a corporate credit union should be required to contribute capital. We believe core capital should be maintained at a minimum of 4%.

Membership Capital – We believe membership capital should be adjusted annually using a universal formula across all corporate credit unions based on the members' asset size. A three year notice period is appropriate for withdrawal of membership capital.

Risk-based capital and contributed capital requirements – Risk-based capital calculations should be used to determine capital requirements with a minimum core capital established at 4% and minimum total capital at 6%. The use of risk-based capital would help to assure that corporate credit unions that make the decision to take on higher risk in the balance sheet would be required to maintain higher capital amounts.

Permissible Investments

As stated earlier, we believe investment authority for corporate credit unions should only facilitate the operations of efficient payment systems and liquidity management. If certain types of investments are too risky for natural person credit unions, then in all practicality they may be too risky for corporate credit unions. Certainly concentration and durations of all investments need to be monitored regularly. If a corporate credit union takes on additional risk, then ultimately that risk is passed on to the natural person credit union.

Credit Risk Management

While the current economic collapse has brought on concerns about the Nationally Recognized Statistical Rating Organizations (NRSROs), they have in the past been an effective tool when evaluating investments. Corporate credit unions should use a minimum of two ratings from NRSROs when purchasing investments and later evaluating for holding.

Additionally concentration limits need to be tightened and duration limits may need to be considered. Independent evaluations of credit risk should not be required if corporate credit union personnel maintain the expertise necessary to manage the portfolio.

Asset Liability Management

Testing and modeling is a very effective tool when used appropriately. But one must remember it is only a tool and not a crystal ball. The modeling is as effective as the assumptions used in the model. Unquestionably if expanded authorities are not constrained, the additional monitoring tools should be considered.

Corporate Governance

The boards of corporate credit unions should be made up of volunteer representatives of natural person credit unions elected by the membership of the corporate credit union. Representation should be from different size natural person credit unions to provide differing perspectives on the amount of risk that is acceptable.

If U.S. Central survives, then its board should be made up of both volunteer representatives of member corporate credit unions and volunteer representatives of natural person credit unions. The representatives of the natural person credit unions must have capital in the corporate credit union network.

We believe that requiring corporate directors come from different size natural person credit unions will provide enough diversity and experience that establishing minimum qualifications will not be needed.

While we are not averse to representation from outside the credit union network, we do not feel there would be a great amount of additional benefit from including outside representation. Additionally we do not believe term limits are necessary.

Summary

There are many facets of the corporate credit union regulation to consider for revision. We believe there are two components that require the most consideration. These two components are the regulation of the concentration of investments and the capital requirements for the corporate credit unions. Even though it will take time, we believe the corporate credit union system can and will emerge stronger and wiser from this economic downturn with a renewed sense of purpose.